

CITY OF EDMONDS, WASHINGTON

ORDINANCE NO. 3863

AN ORDINANCE of the City of Edmonds, Washington, relating to the combined water and sewerage systems comprising the waterworks utility of the City; specifying, adopting and ordering the carrying out of a system or plan of additions to and betterments and extensions of the combined waterworks utility; providing for the issuance of not to exceed \$16,500,000 of the City's water and sewer revenue bonds: (a) to pay all or a portion of the costs of carrying out that Plan of Additions, (b) to carry out the refunding of the currently outstanding water and sewer revenue bonds of the City and pay the administrative costs of such refunding, (c) to fund the Reserve Requirement, and (d) to pay the costs of issuance and sale of the bonds; fixing or setting parameters with respect to certain terms and covenants of the bonds; and appointing the Finance Director as the City's designated representative to approve the final terms of the sale and issuance of the bonds, to appoint a refunding trustee and to take certain other actions with respect to carrying out the refunding and the issuance of the bonds.

Passed December 6, 2011

This document prepared by:

*Foster Pepper PLLC
1111 Third Avenue, Suite 3400
Seattle, Washington 98101
(206) 447-4400*

TABLE OF CONTENTS

Section 1.	Findings and Determinations.....	1
Section 2.	Definitions.....	2
Section 3.	Adoption of Plan of Additions	10
Section 4.	Purpose and Authorization of the Bonds.....	10
Section 5.	Description of the Bonds; Appointment of Designated Representative	10
Section 6.	Bond Registrar; Registration and Transfer of Bonds.	12
Section 7.	Form and Execution of Bonds.....	13
Section 8.	Payment of Bonds	13
Section 9.	Redemption Provisions and Open Market Purchase of Bonds.	14
Section 10.	Refunding or Defeasance of the Bonds.....	15
Section 11.	Failure To Redeem Bonds	16
Section 12.	Security for the Bonds; Bond Fund.....	16
Section 13.	Deposit of Bond Proceeds	18
Section 14.	Flow of Funds.....	18
Section 15.	Additional Covenants	18
Section 16.	Rate Stabilization Account.....	20
Section 17.	Separate Utility Systems	20
Section 18.	Refunding of the Refunded Bonds.	21
Section 19.	Manner of Sale of Bonds.....	23
Section 20.	Parity Conditions.....	24
Section 21.	Tax Matters.	24
Section 22.	Official Statement.	25
Section 23.	Undertaking to Provide Continuing Disclosure.....	25
Section 24.	Amendatory and Supplemental Ordinances.	25
Section 25.	General Authorization; Delivery of Bonds.....	27
Section 26.	Severability	27
Section 27.	Prior Bond Authorization Repealed	28
Section 28.	Effective Date of Ordinance.....	28

CITY OF EDMONDS, WASHINGTON

ORDINANCE NO. 3863

AN ORDINANCE of the City of Edmonds, Washington, relating to the combined water and sewerage systems comprising the waterworks utility of the City; specifying, adopting and ordering the carrying out of a system or plan of additions to and betterments and extensions of the combined waterworks utility; providing for the issuance of not to exceed \$16,500,000 of the City's water and sewer revenue bonds: (a) to pay all or a portion of the costs of carrying out that Plan of Additions, (b) to carry out the refunding of the currently outstanding water and sewer revenue bonds of the City and pay the administrative costs of such refunding, (c) to fund the Reserve Requirement, and (d) to pay the costs of issuance and sale of the bonds; fixing or setting parameters with respect to certain terms and covenants of the bonds; and appointing the Finance Director as the City's designated representative to approve the final terms of the sale and issuance of the bonds, to appoint a refunding trustee and to take certain other actions with respect to carrying out the refunding and the issuance of the bonds.

THE CITY COUNCIL OF THE CITY OF EDMONDS, WASHINGTON, DO ORDAIN AS FOLLOWS:

Section 1. Findings and Determinations. The City Council of the City of Edmonds, Washington (the "City") makes the findings and determinations set forth below. Capitalized terms have the meanings given in Section 2.

(a) *Previously Issued Bonds and Loans.* The City previously issued its Water and Sewer Revenue Refunding and Construction Bonds, 1977 (which have since been retired) and in connection with such issuance reserved the right to issue Future Parity Bonds on a parity of lien with those 1977 Bonds if certain Parity Conditions are met at the time those Future Parity Bonds are issued. The currently-outstanding bonds issued on a parity of lien with those 1977 Bonds include the 1998 Bonds and the 2003 Bonds. The City also has several outstanding Loans, which are secured by a pledge of net revenues that is junior and inferior to the pledge securing the outstanding 1998 Bonds, 2003 Bonds and the Bonds authorized to be issued in this ordinance.

(b) *New Parity Bonds; Lien Position.* After due consideration, it appears to the City Council that, in order to establish new covenants and to provide for the combining of the utility systems for purposes of debt issuance, it is in the City's best interest to issue and sell the Bonds authorized in this ordinance in order to refund the Refunded Bonds by carrying out the Refunding Plan (as defined below) and to establish a new lien position with new covenants to be effective following the delivery of the Bonds.

(c) *Purpose of Refunding.* The City Council finds that certain covenants, terms and conditions of the Outstanding Parity Bonds need to be substantially modified and modernized and that it is in the best interest of the City to refund the Refunded Bonds in order to modify debt service or reserve requirements, covenants, or other terms of the bonds to be refunded, in accordance with RCW 39.53.020. The refunding is additionally expected to produce a substantial savings to the City and its ratepayers. The Refunded Bonds are identified as follows:

- (1) 1998 Bonds. The 1998 Bonds are currently outstanding in the par amount of \$560,000, bear interest at rates from 4.80% to 4.85%, mature in 2012 and 2013, and are callable at any time at a price of par plus interest accrued to the date set for redemption.
- (2) 2003 Bonds. The 2003 Bonds are currently outstanding in the par amount of \$1,910,000, bear interest at rates from 4.0% to 4.45%, mature in 2012, 2014, 2016, 2018, 2020 and 2022. The 2003 Bonds maturing in 2014 through 2022 are callable at any time on or after December 1, 2012 at a price of par plus interest accrued to the date set for redemption.

(d) *Approval of Final Terms of the Bonds.* RCW 39.46.040(2) provides that an ordinance authorizing the issuance of bonds may authorize an officer of the City to serve as the City's Designated Representative and to accept, on behalf of the City, an offer to purchase those bonds so long as the acceptance of such offer is consistent with terms established by an ordinance that establishes, or sets parameters with respect to, the following Final Terms: the amount, date or dates, denominations, interest rate or rates (or mechanism for determining interest rate or rates); payment dates, final maturity, redemption rights, price, minimum savings for refunding bonds (if the refunding bonds are issued for savings purposes), and any other terms and conditions deemed appropriate by the City Council.

Section 2. Definitions. As used in this ordinance, the following words shall have the following meanings:

(a) *"1998 Bonds"* means the City's outstanding Water and Sewer Revenue Refunding Bonds, 1998, authorized by Ordinance No. 3191 (passed on February 17, 1998), which bonds were issued on a parity of lien with the City's previously issued 1977 Bonds and the then-outstanding Parity Bonds. The 1998 Bonds were originally issued to advance refund the callable, new money portion of the City's outstanding Water and Sewer Revenue and Refunding Bonds, 1993, and to pay the administrative costs of such refunding and the costs of issuance and sale of such bonds.

(b) *"2003 Bonds"* means the City's outstanding Water and Sewer Revenue Improvement and Refunding Bonds, 2003, authorized by Ordinance No. 3446, passed on March 25, 2003 on a parity of lien with the 1977 Bonds and the then-outstanding Parity Bonds. The 2003 Bonds were issued to (a) pay costs of carrying out certain improvements to the Water and Sewer Utility, (b) carry out a current refunding of the callable portion of the City's outstanding Water and Sewer Revenue Refunding Bonds, 1992, and pay the administrative costs of such refunding, and (c) pay the costs of issuance of the bonds

(c) “*Acquired Obligations*” means those United States Treasury Certificates of Indebtedness, Notes, and Bonds--State and Local Government Series and other direct obligations (including direct obligations of or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America), which are purchased to accomplish the refunding of the Refunded Bonds.

(d) “*Adjusted Net Revenue*” means Net Revenue, plus withdrawals from the Rate Stabilization Account and less deposits into the Rate Stabilization Account.

(e) “*Annual Debt Service*” means, for any fiscal year, with respect to all Parity Bonds outstanding or maturing in that year, all amounts required to be paid in that year in respect of principal of and interest on those Parity Bonds, less all bond interest payable from the proceeds of any Parity Bonds, and less all Tax Credit Subsidy Payments to be received in that year. Parity Bonds issued as Variable Interest Rate Bonds shall be assumed to bear interest at a fixed rate equal to the higher of (i) the highest variable rate borne during the preceding 24 months by any then-outstanding Variable Interest Rate Bonds or, (ii) if no Variable Interest Rate Bonds are then outstanding, a rate determined by reference to the index to be used to determine the interest rate on the Future Parity Bonds proposed to be issued or a comparable index.

(f) “*Average Annual Debt Service*” means, as of its date of calculation, the sum of the Annual Debt Service for the remaining fiscal years to the last scheduled maturity of the applicable issue or issues of bonds divided by the number of those years.

(g) “*Authorized Denominations*” means \$5,000 or any integral multiple thereof within a maturity.

(h) “*Beneficial Owner*” means the owner of any beneficial interests in the Bonds.

(i) “*Bond Counsel*” means Foster Pepper PLLC or any other nationally recognized bond counsel firm then representing the City.

(j) “*Bond Fund*” means that special fund of the City created pursuant to Section 12 of this ordinance for the payment of the principal of and interest on all Parity Bonds.

(k) “*Bond Insurance Policy*” means a municipal bond insurance policy issued by a Bond Insurer insuring the payment when due of the principal of and interest on Parity Bonds as provided in such policy and as approved and accepted by the Designated Representative.

(l) “*Bond Insurer*” or “*Insurer*” means a bond insurance company providing a Bond Insurance Policy or Reserve Securities for any outstanding Parity Bonds.

(m) “*Bond Purchase Contract*” means an offer to purchase the Bonds presented by an underwriter (or other purchaser) and accepted by the Designated Representative, acting on behalf of the City, setting forth certain terms and conditions of the issuance, sale and delivery of the Bonds. In the case of a competitive sale of Bonds, the offer shall mean the submitted bid (which incorporates all of the terms and conditions set forth in the Notice of Bond Sale, as they may be adjusted within the parameters of the Notice of Bond Sale and agreed upon with the winning

bidder), and the award by the Designated Representative to the successful bidder shall constitute the acceptance of the Bond Purchase Contract.

(n) “*Bond Register*” means the books or records maintained by the Bond Registrar containing the name and mailing address of the owner of each Bond and the principal amount and number of Bonds held by each owner.

(o) “*Bond Registrar*” means the Fiscal Agent.

(p) “*Bonds*” means the bonds authorized to be issued by this ordinance.

(q) “*City*” means the City of Edmonds, Washington.

(r) “*Closing Date*” means the date on which the Bonds are delivered to the initial purchaser or purchasers thereof upon payment in full therefor.

(s) “*Code*” means the United States Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

(t) “*Construction Fund*” means the City’s 412 Construction Fund.

(u) “*Coverage Requirement*” means for any fiscal year, an amount of Adjusted Net Revenue at least equal to 1.25 times the Annual Debt Service in that year on all then-outstanding Parity Bonds, less the ULID Assessments due in that year and not delinquent.

(v) “*DTC*” means The Depository Trust Company, New York, New York.

(w) “*Designated Representative*” means the Finance Director, appointed in Section 3 of this ordinance to serve as the City’s designated representative in accordance with RCW 39.46.040(2).

(x) “*Final Terms*” means the terms and conditions for the sale of Bonds including, but not limited to the amount, date or dates, denominations, interest rate or rates (or mechanism for determining interest rate or rates), payment dates, final maturity, redemption rights, price, and minimum savings for refunding bonds (if the refunding bonds are issued for savings purposes).

(y) “*Finance Director*” means the Finance Director of the City or any other City official who succeeds to the duties now delegated to that office, or the designee of such officer.

(z) “*Financial Advisor*” means A. Dashen and Associates of Bellevue, Washington, or any other Financial Advisor then appointed and acting as financial advisor to the City.

(aa) “*Fiscal Agent*” means the fiscal agent of the State, currently The Bank of New York Mellon, as the same may be designated by the State from time to time.

(bb) “*Future Parity Bonds*” means all revenue and other obligations of the City for borrowed money (including, without limitation, financing leases) issued or incurred after the date of the issuance of the Bonds, the payment of the principal of and interest on which constitutes a

charge or lien on the Net Revenue and ULID Assessments equal in rank with the charge and lien upon such revenue and assessments required to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on the Parity Bonds.

(cc) “*Government Obligations*” means those obligations described under the definition of government obligations in RCW 39.53.010(4), as it now reads or hereafter may be amended, and which are otherwise lawful investments for the City.

(dd) “*Gross Revenue*” means all of the earnings and revenues received by the City from the maintenance and operation of the Water and Sewer Utility, including but not limited to: revenues from the sale, lease or furnishing of commodities, services, properties or facilities; all earnings from the investment of money in the Bond Fund that are deposited into the Principal and Interest Account; earnings from the investment of money in any maintenance fund or similar fund; all connection and capital improvement charges collected for the purpose of defraying the cost of capital facilities of the Water and Sewer Utility; and withdrawals from the Rate Stabilization Fund. However, the Gross Revenue shall not include: (a) revenues from general *ad valorem* property taxes; (b) principal proceeds of Parity Bonds or any other borrowings, or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund obligations relating to the Water and Sewer Utility (until commingled with other earnings and revenues included in the Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Code; (c) income and revenue which may not legally be pledged for revenue bond debt service; (d) improvement district assessments; (e) federal or state grants, and gifts from any source allocated to capital projects; (f) payments under bond insurance or other credit enhancement policy or device; (g) insurance or condemnation proceeds used for the replacement of capital projects or equipment; (h) proceeds from the sale of Water and Sewer Utility property; (i) earnings on bond proceeds in any construction fund or bond redemption fund; (j) deposits to the Rate Stabilization Fund; (k) Tax Credit Subsidy Payments; or (l) revenue from any Separate Utility System.

(ee) “*Independent Utility Consultant*” means a professional consultant experienced with municipal utilities of comparable size and character to the Water and Sewer Utility and in such areas as are relevant to the purpose for which he or she is being retained. Such a consultant shall be deemed independent so long as he or she is not an employee or officer of the City.

(ff) “*Interest Payment Date*” means the semiannual dates set for the payment of interest on the Bonds, as set forth in the Bond Purchase Contract.

(gg) “*Letter of Representations*” means the Blanket Issuer Letter of Representations dated August 6, 1996, between the City and DTC, as it may be amended from time to time.

(hh) “*Loans*” means any State of Washington Public Works Trust Fund loans, State Drinking Water Revolving Fund loans, or similar loans entered into by the City to fund improvements to the Water and Sewer Utility, the payment of which is a claim on the Net Revenue that is junior and inferior to the lien and charge of the Parity Bonds.

(ii) “*MSRB*” means the Municipal Securities Rulemaking Board.

(jj) “*Maximum Annual Debt Service*” means, as of the date of calculation, the maximum amount of Annual Debt Service that will mature or come due in the current fiscal year or any future fiscal year with respect to all outstanding Parity Bonds.

(kk) “*Maximum Interest Rate*” means, with respect to any Variable Interest Rate Bond, a numerical rate of interest that is the maximum rate of interest those Future Parity Bonds may bear at any time.

(ll) “*Net Revenue*” means the Gross Revenue, less Operating and Maintenance Expenses.

(mm) “*Operating and Maintenance Expenses*” means all reasonable expenses incurred by the City in causing the Water and Sewer Utility to be operated and maintained in good repair, working order and condition, including payments made pursuant to contract for such service to any other municipal corporation or private entity for sewage treatment and disposal, water supply and distribution or stormwater, or other utility service (if the City combines such service into the Water and Sewer Utility), and including budget charges for the City’s administration expenses allocated to the Water and Sewer Utility, but shall not include depreciation or any taxes (or charges in lieu of taxes) levied or imposed by the City.

(nn) “*Outstanding Parity Bonds*” means any Parity Bonds outstanding at the time of issuance of any Future Parity Bonds. As of the date of issuance of the Bonds, there will be no Outstanding Parity Bonds other than the Bonds.

(oo) “*Owners*” means, without distinction, the Registered Owner(s) and the Beneficial Owner(s).

(pp) “*Parity Bonds*” means any Outstanding Parity Bonds, the Bonds and Future Parity Bonds.

(qq) “*Parity Conditions*” means the conditions precedent to the issuance of Future Parity Bonds, originally set forth in Section 16 of Ordinance No. 1957, as amended by Section 3 of Ordinance No. 2363, and as further amended and set forth in Exhibit A to this ordinance, which is incorporated by this reference.

(rr) “*Permitted Investments*” means investments that are legal investments for the City at the time of such investment.

(ss) “*Plan of Additions*” means the system or plan of additions and improvements to and betterments and extensions of the Water and Sewer Utility specified, adopted and ordered to be carried out by Section 3 of this ordinance.

(tt) “*Principal and Interest Account*” means the account of that name created in the Bond Fund for the payment of the principal of and interest on the Parity Bonds.

(uu) “*Principal Payment Date*” means the annual date set for the payment of principal of the Bonds, including the making of mandatory redemption payments for any Term Bonds, all as set forth in the Bond Purchase Contract.

(vv) “*Rate Stabilization Account*” means the account of that name created for the purposes described in Section 16.

(ww) “*Rating Agency*” means a nationally recognized rating agency or agencies, if any, providing a rating on the Bonds at the request of the City.

(xx) “*Redemption Date*” means the date or dates fixed for redemption of each issue of Refunded Bonds, respectively.

(yy) “*Refunded Bond Ordinance(s)*” means the ordinance authorizing a particular issue of the Refunded Bonds, as applicable.

(zz) “*Refunded Bonds*” means the following outstanding bonds of the City:

Bond Issue	Amount Currently Outstanding	Interest Rates	Maturity Dates (due Dec.1)	Call Date
1998 Bonds	\$ 560,000	4.80 – 4.85%	2012, 2013	12/1/2007
2003 Bonds	1,910,000	4.00 – 4.45%	2012, 2014, 2016, 2018, 2020 and 2022	12/1/2012

(aaa) “*Refunding Plan*” means (as further described in the applicable Refunding Trust Agreement):

- (1) the deposit with the Refunding Trustee of an amount of proceeds of the Bonds sufficient (together with other money of the City, if necessary) to acquire the Acquired Obligations to be held by the Refunding Trustee with cash, if necessary;
- (2) the application of the principal of and interest on the Acquired Obligations (and any other cash balance) to the call, payment and redemption of the specified Refunded Bonds on the applicable Redemption Date(s) at a price of par plus any accrued interest; and
- (3) the payment of costs of issuing the Bonds and the costs of carrying out the foregoing elements of the Refunding Plan.

(bbb) “*Refunding Trust Agreement*” means a refunding trust or escrow agreement between the City and the Refunding Trustee, dated as of the Closing Date, providing for the safekeeping of bond proceeds and the refunding of certain Refunded Bonds.

(ccc) “*Refunding Trustee*” means the trustee or escrow agent, or any successor trustee or escrow agent, designated by the Designated Representative to serve as refunding trustee to carry out the Refunding Plan.

(ddd) “*Registered Owner*” means the person in whose name a Bond is registered on the Bond Register. For so long as the City utilizes the book–entry system for the Bonds under the Letter of Representations, Registered Owner shall mean DTC.

(eee) “*Registration Ordinance*” means City Ordinance No. 2451 establishing a system of registration for the City’s bonds and other obligations.

(fff) “*Reserve Account*” means the account of that name created in the Bond Fund for the purpose of securing the payment of the principal of and interest on the Parity Bonds.

(ggg) “*Reserve Securities*” means, in lieu of cash and investments, any bond insurance, collateral, security, letter of credit, guaranty, surety bond or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on Parity Bonds, issued by an institution which has been assigned a credit rating at the time that such Reserve Securities is provided, in the two highest rating categories without regard to gradations within those categories (i.e., AAA or AA).

(hhh) “*Reserve Requirement*” means for all Parity Bonds, an amount equal to the lesser of (i) Maximum Annual Debt Service, (ii) 125% of Average Annual Debt Service, or (iii) 10% of the proceeds of the then-outstanding Parity Bonds. The Reserve Requirement may be met by a deposit of cash, Reserve Securities, or any combination of the foregoing, and the amount payable under any Reserve Securities shall be credited against the amount otherwise required to be deposited into the Reserve Account.

(iii) “*Rule*” means Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

(jjj) “*SEC*” means the United States Securities and Exchange Commission.

(kkk) “*Separate Utility System*” means any water supply, sewage collection or treatment, stormwater management or other utility service or facilities that may be created, acquired or constructed by the City as provided in Section 17 of this ordinance.

(lll) “*Sewer System*” means the sanitary sewage collection and disposal system of the City, also referred to as the sewer utility.

(mmm) “*Sewer System Comprehensive Plan*” means the Sewer General Plan prepared for the City and adopted by the City Council on December 6, 2006 pursuant to Ordinance No. 3620.

(nnn) “*Stormwater System*” means the stormwater management utility combined into the Water and Sewer Utility pursuant to chapter 7.60 of the Edmonds City Code.

(ooo) “*State*” means the State of Washington.

(ppp) “*Tax Credit Subsidy Bond*” means any bond that is designated by the City as a “build America bond” or other type of tax credit bond, pursuant to the Code, and which is further designated as a “qualified bond” under Section 6431 of the Code (or under similar provisions of the Code providing for “direct-pay” tax credit bonds), and with respect to which the City expects to receive a Tax Credit Subsidy Payment.

(qqq) “*Tax Credit Subsidy Payment*” means the amounts which the City expects to receive as a tax credit payable by the United States Treasury to the City under Section 6431 of the Code (or under similar provisions of the Code providing for “direct-pay” tax credit bonds), in respect of any bonds issued as Tax Credit Subsidy Bonds.

(rrr) “*Term Bond*” means those Bonds that are designated as term bonds in the Bond Purchase Contract.

(sss) “*ULID*” means any utility local improvement district now existing or hereafter created for the acquisition or construction of additions, extensions or betterments of any portion of the Water and Sewer Utility, which additions, extensions or betterments are financed through the issuance of Parity Bonds. As used in this ordinance, the term ULID does not include any utility local improvement district created for the financing of additions, extensions or betterments by methods other than the issuance of Parity Bonds.

(ttt) “*ULID Assessments*” means the assessments levied in any ULID, including installment payments of any assessment as well as the interest and penalties (if any) thereon, less any prepaid assessments permitted by law to be paid into a construction fund or account.

(uuu) “*Undertaking*” means a continuing disclosure agreement authorized to be executed by the Designated Representative, pursuant to Section 18 of this ordinance.

(vvv) “*Underwriter*” means the firm or firms selected by the Designated Representative as the underwriter(s) for a negotiated sale or awarded as the successful bidder in a competitive sale.

(www) “*Variable Interest Rate*” means a variable interest rate or rates to be borne by a series of Future Parity Bonds or any one or more maturities within a series of Future Parity Bonds. The method of computing such a variable interest rate (or parameters with respect thereto) shall be specified in the ordinance authorizing such Future Parity Bonds, which ordinance also shall specify either (i) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (ii) the time or times upon which any change in such variable interest rate shall become effective.

(xxx) “*Variable Interest Rate Bonds*” means, for any period of time, Future Parity Bonds which bear a Variable Interest Rate during that period, except that Future Parity Bonds the interest rate or rates on which shall have been fixed for the remainder of the term thereof no longer shall be deemed to be Variable Interest Rate Bonds.

(yyy) “*Water and Sewer Utility*” means the combined utility, as described in chapter 7.60 of the Edmonds City Code, including the component Water System, Sewer System and Stormwater System, together with all additions thereto and betterments and extensions thereof at any time made, and any other utility systems hereafter combined with the Water and Sewer Utility.

(zzz) “*Water and Sewer Utility Fund*” means, together, the Water Fund, the Sewer Fund and the Stormwater Fund, each of which has previously been established by the City.

(aaaa) “*Water System Comprehensive Plan*” means the Water System Plan prepared for the City and adopted by the City Council on December 21, 2010 pursuant to Ordinance No. 3830.

(bbbb) “*Water System*” means the system of water supply and transmission of the City, also referred to as the water utility.

Section 3. Adoption of Plan of Additions. The City specifies, adopts and orders the carrying out of the projects described in Exhibit B as a system or plan of additions to and betterments and extensions of the Water and Sewer Utility. The Plan of Additions shall be carried out in accordance with the plans and specifications therefor prepared by the City’s engineers and consulting engineers. The City Council may modify the details of the Plan of Additions where, in its judgment, it appears advisable if such modifications do not substantially alter the purposes of that system or plan. The life of the improvements comprising the Plan of Additions is declared to be at least 25 years. The estimated cost of carrying out the Plan of Additions, including the costs of issuance and sale of the Bonds, is declared to be more than \$12 million, which cost shall be paid from the proceeds of the Bonds allocated to the Plan of Additions and from other money available to the Water and Sewer Utility.

Section 4. Purpose and Authorization of the Bonds. The City shall issue the Bonds in the aggregate principal amount of not to exceed \$16,500,000, for the purpose of providing the funds (1) to carry out the Plan of Additions, (2) to carry out the Refunding Plan, (3) to fund the Reserve Requirement, and (4) to pay the costs of issuance of the Bonds. The Bonds shall be allocated to paying the respective costs of the Plan of Additions and to the carrying out of the Refunding Plan (including a ratable share of proceeds used to fund the Reserve Requirement and to pay the costs of issuance of the Bonds) in accordance with a schedule approved by the Designated Representative in a tax certificate or closing certificate executed in connection with the issuance of the Bonds.

Section 5. Description of the Bonds; Appointment of Designated Representative. The Finance Director is appointed as the City’s Designated Representative and is authorized and directed to conduct the sale of such Bonds in the manner and upon the terms deemed most advantageous to the City, and to approve the Final Terms of the Bonds, within the following parameters:

(a) *Amount.* The Bonds shall be issued in a single series and shall not exceed the aggregate principal amount of \$16,500,000. The principal amount of Bonds allocated to the Refunding Plan (i) may exceed the principal amount of the Refunded Bonds being refunded by an amount deemed reasonably required to effect such refunding (which may reasonably include provision for bonds sold at a discount), or (ii) may be less than or the same as the principal amount of the Refunded Bonds, so long as provision is duly and sufficiently made for the retirement or redemption of those Refunded Bonds.

(b) *Date or Dates.* The Bonds shall be dated as of their date of delivery to the initial purchaser, which date may not be later than December 31, 2012.

(c) *Denominations, Series Designation, etc.* The Bonds must be issued in Authorized Denominations, shall be numbered separately in the manner and shall bear any name and additional designation as deemed necessary or appropriate by the Designated Representative.

(d) *Interest Rate(s).* The Bonds shall bear interest at fixed rates per annum (computed on the basis of a 360-day year of twelve 30-day months) from their date or from the most recent interest payment date for which interest has been paid or duly provided for, whichever is later. One or more rates of interest may be fixed for the Bonds, which rate or rates must be in multiples of 1/8th or 1/20th of 1%, or both. No more than one rate of interest may be fixed for any one maturity. No rate of interest for any maturity may exceed 5.50%, and the “all-in” true interest cost for the Bonds may not exceed 5.50%.

(e) *Payment Dates.* Interest must be payable at fixed rates semiannually (on each June 1 and December 1, or such other semiannual dates as are selected by the Designated Representative), commencing on the next such semiannual date following the issuance of the Bonds. Principal must be payable annually (on each December 1, or such other annual date as is selected by the Designated Representative) commencing no earlier than the next such annual date following the issuance of the Bonds.

(f) *Final Maturity.* The refunding allocation of Bonds shall not extend over a longer period of time than the series of Refunded Bonds to which that portion of the Bonds is allocated. The final maturity of the portion of the Bonds allocated to the Plan of Additions shall be no later than December 1, 2037.

(g) *Redemption Rights.* The Bonds shall be issued subject to optional and mandatory redemption provisions, including designation of Term Bonds, if any, set forth in Section 9.

(h) *Price.* The purchase price for the Bonds may not be less than 95% or more than 115% of the par value of the Bonds.

(i) *The Refundings.* The Designated Representative shall have the authority described in Section 17 with respect to authorizing the refundings and carrying out the Refunding Plan. No minimum savings shall be required because the refundings are authorized in order to effect a change in covenants.

(j) *Sufficiency of Gross Revenues.* The Bonds may not be issued unless, as of the Closing Date, the Finance Director certifies that the Gross Revenue will be more than sufficient to pay the Operating and Maintenance Expenses and to permit the setting aside out of the Net Revenue into the Bond Fund of sufficient amounts to pay the principal of and interest on the Bonds when due.

(k) *Other Terms and Conditions.* The Bonds may be sold by either negotiated sale or by competitive bid, in accordance with Section 19 of this ordinance. The Designated Representative, in consultation with the City’s Financial Advisor, may determine whether it is in the City’s best interest to provide for bond insurance or other credit enhancement. With respect to bond insurance or other credit enhancement, the Designated Representative may accept, on behalf of the City, such additional terms, conditions, and covenants as may be required by the enhancement provider, if consistent with the provisions of this ordinance or may determine to state in the Notice of Bond Sale that any such insurance or credit enhancement is at the sole option of the winning bidder. The Designated Representative is authorized to take such additional actions as may be necessary or convenient for the refunding of the Refunded Bonds and for the issuance of the Bonds pursuant to the terms of this ordinance.

Section 6. Bond Registrar; Registration and Transfer of Bonds.

(a) *Registration of Bonds.* The Bonds shall be issued only in registered form as to both principal and interest and shall be recorded on the Bond Register.

(b) *Bond Registrar.* The Bond Registrar shall keep, or cause to be kept, sufficient books for the registration and transfer of the Bonds, which shall be open to inspection by the City at all times. The Bond Register shall contain the name and mailing address of the Registered Owner of each Bond and the principal amount and number of each of the Bonds held by each Registered Owner. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to serve as the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers and duties under this ordinance and City's Registration Ordinance. The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may become either a Registered or Beneficial Owner of Bonds with the same rights it would have if it were not the Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of Beneficial Owners.

(c) *Transfer and Exchange of Bonds.* Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any Authorized Denomination of an equal aggregate principal amount and of the same interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond during the 15 days preceding any principal payment or redemption date.

(d) *DTC and the Book Entry System.* The Bonds initially shall be registered in the name of Cede and Co., as the nominee of DTC. The Bonds so registered shall be held in fully immobilized form by DTC as depository in accordance with the provisions of the Letter of Representations. Neither the City nor the Bond Registrar shall have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Bonds regarding accuracy of any records maintained by DTC or DTC participants of any amount in respect of principal of or interest on the Bonds, or any notice which is permitted or required to be given to Registered Owners hereunder (except such notice as is required to be given by the Bond Registrar to DTC).

For as long as any Bonds are held in fully immobilized form, DTC, its nominee or its successor depository shall be deemed to be the Registered Owner for all purposes hereunder and all references to registered owners, bondowners, bondholders or the like shall mean DTC or its nominee and, except for the purpose of the City's undertaking herein to provide continuing disclosure, shall not mean the Beneficial Owners. Registered ownership of such Bonds, or any portions thereof, may not thereafter be transferred except: (i) to any successor of DTC or its nominee, if that successor shall be qualified under any applicable laws to provide the services proposed to be provided by it; (ii) to any substitute depository appointed by the City or such

substitute depository's successor; or (iii) to any person if the Bonds are no longer held in immobilized form.

Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository, or a determination by the City that it no longer wishes to continue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the City may appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

If (i) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained or (ii) the City determines that the Bonds are to be in certificated form, the ownership of Bonds may be transferred to any person as provided herein and the Bonds no longer shall be held in fully immobilized form.

Section 7. Form and Execution of Bonds. The Bonds shall be prepared in a form consistent with the provisions of this ordinance and state law and shall be signed by the Mayor and City Clerk, either or both of whose signatures may be manual or in facsimile, and the seal of the City or a facsimile reproduction thereof shall be impressed or printed thereon.

Only Bonds bearing a Certificate of Authentication in the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance: "Certificate Of Authentication. This Bond is one of the fully registered City of Edmonds, Washington, Water and Sewer Improvement and Refunding Revenue Bonds, [appropriate year and any other designation], described in the Bond Ordinance." The authorized signing of a Certificate of Authentication shall be conclusive evidence that the Bond so authenticated has been duly executed, authenticated and delivered and is entitled to the benefits of this ordinance.

If any officer whose manual or facsimile signature appears on the Bonds ceases to be an officer of the City authorized to sign bonds before the Bonds bearing his or her manual or facsimile signature are authenticated or delivered by the Bond Registrar or issued by the City, those Bonds nevertheless may be authenticated, issued and delivered and, when authenticated, issued and delivered, shall be as binding on the City as though that person had continued to be an officer of the City authorized to sign bonds. Any Bond also may be signed on behalf of the City by any person who, on the actual date of signing of the Bond, is an officer of the City authorized to sign bonds, although he or she did not hold the required office on the date of issuance of the Bonds.

Section 8. Payment of Bonds. Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America solely from the revenues set forth in Section 11 of this ordinance. For as long as the Bonds are registered in the name of DTC or its nominee, payment of principal of and interest on the Bonds shall be made in the manner set forth in the Letter of Representations. If the Bonds cease to be in book-entry-only form, interest on the Bonds shall be paid by checks or drafts of the Bond Registrar mailed on the interest payment date to the Registered Owners at the addresses appearing on the Bond Register on the 15th day

of the month preceding the interest payment date or by electronic transfer on the interest payment date. The City shall not be required to make electronic transfers except to a Registered Owner of Bonds pursuant to a request in writing (and at the sole expense of that Registered Owner) received at least 10 days before an interest payment date. Principal of the Bonds shall be payable upon presentation and surrender of the Bonds by the Registered Owners to the Bond Registrar.

Section 9. *Redemption Provisions and Open Market Purchase of Bonds.*

(a) *Optional Redemption.* The City's Designated Representative may designate certain maturities of the Bonds as being subject to redemption at the option of the City prior to their respective maturities on the dates and at the prices set forth in the Bond Purchase Contract. The Designated Representative may also, in his or her discretion, designate certain maturities of the Bonds as not being subject to optional redemption prior to maturity.

(b) *Term Bonds.* The Designated Representative may approve the designation of certain maturities of the Bonds as Term Bonds, as set forth in the Bond Purchase Contract. The City shall redeem Term Bonds, if not previously redeemed under any optional redemption provisions or purchased and surrendered for cancellation under the provisions set forth below, at a price of par plus accrued interest on the annual redemption dates and in annual redemption amounts approved by the Designated Representative. If the City redeems under the optional redemption provisions, purchases in the open market or defeases Term Bonds, the par amount of the Term Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) shall be credited against one or more scheduled mandatory redemption amounts for those Term Bonds. The City shall determine the manner in which the credit is to be allocated and shall notify the Bond Registrar in writing of its allocation prior to the earliest mandatory redemption date for that maturity of Term Bonds for which notice of redemption has not already been given.

(c) *Partial Redemption.* Portions of the principal amount of the Bonds, in any Authorized Denomination, may be redeemed. If less than all of the principal amount of the Bonds is redeemed, upon surrender of that Bond to the Bond Registrar, there shall be issued to the Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered Owner) of the same series, maturity and interest rate in any Authorized Denomination in the aggregate principal amount remaining unredeemed.

(d) *Selection of Bonds for Redemption.* If fewer than all of the Bonds within a maturity are to be redeemed prior to maturity, Bonds shall be selected for redemption randomly within a maturity in such manner as the Bond Registrar shall determine. Notwithstanding the foregoing, for as long as the Bonds are registered in the name of DTC or its nominee, selection of Bonds for redemption shall be in accordance with the Letter of Representations.

(e) *Notice of Redemption.* While the Bonds are held by DTC in book-entry only form, any notice of redemption shall be given at the time, to the entity and in the manner required by DTC in accordance with the Letter of Representations, and the Bond Registrar shall not be required to give any other notice of redemption. If the Bonds cease to be in book-entry only form unless waived by any Registered Owner of the Bonds to be redeemed, the City shall cause notice

of any intended redemption of Bonds to be given by the Bond Registrar not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the Registered or Beneficial Owner of any Bond.

In the case of an optional redemption, the notice may state that the City retains the right to rescind the redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected Registered Owners at any time prior to the scheduled optional redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

In addition, the redemption notice shall be mailed or sent electronically within the same period to the MSRB consistent with the Undertaking, to any nationally recognized rating agency which at the time maintains a rating on the Bonds at the request of the City, and to such other persons and with such additional information as the Finance Officer shall determine, but these additional mailings shall not be a condition precedent to the redemption of Bonds.

(f) *Effect of Redemption.* Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption, unless the notice of redemption is rescinded as set forth above.

(g) *Open Market Purchase.* The City further reserves the right and option to purchase any or all of the Bonds in the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

(h) *Cancellation of Bonds.* All Bonds purchased or redeemed under this section shall be canceled.

Section 10. Refunding or Defeasance of the Bonds. The City may issue refunding bonds pursuant to the laws of the State or use money available from any other lawful source to pay when due the principal of and interest on the Bonds, or any portion thereof included in a refunding or defeasance plan, and to redeem and retire, refund or defease all such then-outstanding Bonds (hereinafter collectively called the “defeased Bonds”) and to pay the costs of the refunding or defeasance. If money and/or “government obligations” (as defined in chapter 39.53 RCW, as now or hereafter amended) maturing at a time or times and bearing interest in amounts (together with money, if necessary) sufficient to redeem and retire, refund or defease the defeased Bonds in accordance with their terms are set aside in a special trust fund or escrow account irrevocably pledged to that redemption, retirement or defeasance of defeased Bonds (hereinafter called the “trust account”), then all right and interest of the Owners of the defeased Bonds in the covenants of this ordinance and in the funds and accounts obligated to the payment of the defeased Bonds shall cease and become void. The Owners of defeased Bonds shall have the right to receive payment of the principal of and interest on the defeased Bonds from the trust account. The City shall include in the refunding or defeasance plan such provisions as the City deems necessary for the random selection of any defeased Bonds that constitute less than all of a

particular maturity of the Bonds, for notice of the defeasance to be given to the owners of the defeased Bonds and to such other persons as the City shall determine, and for any required replacement of Bond certificates for defeased Bonds. The defeased Bonds shall be deemed no longer outstanding, and the City may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes as it shall determine. If the Bonds are registered in the name of DTC or its nominee, notice of any defeasance of Bonds shall be given to DTC in the manner prescribed in the Letter of Representations for notices of redemption of Bonds.

Section 11. Failure To Redeem Bonds. If any Bond is not redeemed when properly presented at its maturity or on the date set for redemption, if applicable, the City shall be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or date set for redemption until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund and the Bond has been called for payment by giving notice of that call to the Registered Owner.

Section 12. Security for the Bonds; Bond Fund.

(a) *Pledge of Net Revenues.* The Net Revenue and ULID Assessments are pledged irrevocably to the payment of the amounts required to be paid into the Bond Fund for the payment of the Bonds and all Future Parity Bonds. This pledge shall constitute a lien and charge upon the Net Revenue and ULID Assessments prior and superior to any other charges whatsoever.

(b) *Bond Fund; Deposits to Bond Fund.* The Water and Sewer Utility Revenue Bond Fund 2011 (the "Bond Fund") is established within the Water and Sewer Utility Fund as a special fund of the City and shall be divided into two accounts: the Principal and Interest Account, and the Reserve Account.

So long as any of the Parity Bonds are outstanding, the City obligates and binds itself to set aside and pay into the Bond Fund all ULID Assessments and, out of the Net Revenue, certain fixed amounts, without regard to any fixed proportion, namely:

- (1) Into the Principal and Interest Account, before each Interest Payment Date, an amount that will be sufficient, together with other money on deposit therein, to pay the interest on the Parity Bonds on the next succeeding Interest Payment Date; and
- (2) Into the Principal and Interest Account, before each Principal Payment Date, an amount that will be sufficient, together with other money on deposit therein, to pay the principal of the Parity Bonds on the next succeeding Principal Payment Date, including mandatory redemption amounts due on that date with respect to any Term Bonds; and
- (3) Into the Reserve Account, an amount sufficient that the amount on deposit in the Reserve Account satisfies the Reserve Requirement for the Parity Bonds in the time and manner required by this ordinance.

When the total amount on deposit in the Bond Fund equals the total outstanding amount of principal and interest for all Parity Bonds to the last maturity thereof, no further payment need be made into the Bond Fund. The Finance Director may create sinking fund accounts or other accounts in the Bond Fund for the payment or securing the payment of Parity Bonds as long as the maintenance of such accounts does not conflict with the rights of the owners of Parity Bonds.

(c) *The Reserve Account; Reserve Requirement.* The City covenants and agrees that it will at all times maintain in the Reserve Account an amount (including the value of all Reserve Securities deposited therein) equal to the Reserve Requirement, except for withdrawals as authorized in this subsection, until there is a sufficient amount in the Principal and Interest Account and Reserve Account to pay the principal of and interest on all outstanding Parity Bonds, at which time the money in the Reserve Account may be used to pay any such principal and interest so long as the money remaining on deposit in the Reserve Account is not less than the Reserve Requirement calculated based on the remaining outstanding Parity Bonds. The Reserve Requirement shall be deemed satisfied by any combination of Parity Bond proceeds, Reserve Securities or other legally available money equal to the Reserve Requirement, or by the deposit of available funds of the City in approximately equal annual installments so that the Reserve Requirement is funded no later than three years after the issuance of any Future Parity Bonds.

If there is a deficiency in the Principal and Interest Account in the Bond Fund to make the next upcoming payment of either principal or interest, that deficiency shall be made up from the Reserve Account by the withdrawal of amounts necessary for that purpose. Any deficiency created in the Reserve Account by reason of any such withdrawal shall then be made up from the next available payments of Net Revenue and ULID Assessments after making necessary provision for the required payments into the Principal and Interest Account.

(d) *Investment of Money Deposited in Bond Fund.* All money in the Bond Fund may be kept in cash; deposited with an institution (as permitted by law) in an amount in each institution not greater than the amount insured by any department or agency of the United States Government; or invested in Permitted Investments or other legal investments permitted to the City maturing not later than the date when needed (for investments in the Principal and Interest Account) or the last maturity of any outstanding Parity Bonds (for investments in the Reserve Account). Income from investments in the Principal and Interest Account shall be deposited in that account. Income from investments in the Reserve Account shall be deposited in that account until the amount therein is equal to the Reserve Requirement, and thereafter shall be deposited in the Principal and Interest Account or used for other Water and Sewer Utility purposes.

(e) *Due Regard.* The City Council declares that in creating the Bond Fund, in fixing the amounts to be paid into it, and in requiring the certification of the Finance Director as to the sufficiency of gross revenues, the City Council has had due regard for Operating and Maintenance Expenses and the debt service requirements of the outstanding Parity Bonds, and declares that it is not setting aside into the Bond Fund a greater amount than in its judgment will be available over and above such Operating and Maintenance Expenses and the debt service requirements of the outstanding Parity Bonds.

(f) *Action to Compel Payments.* If the City fails to set aside and pay into the Bond Fund the amounts set forth above, the Owner of any of the outstanding Parity Bonds may bring action against the City and compel the setting aside and payment.

Section 13. Deposit of Bond Proceeds. On the Closing Date, a portion of the proceeds of the Bonds allocated to the refunding and sufficient to carry out the Refunding Plan, shall be deposited with the Refunding Trustee in accordance with Section 18 of this ordinance. The remaining proceeds of the Bonds shall be allocated to the new money portion of the Bonds and shall be deposited in the Construction Fund to be used to carry out the Plan of Additions.

Section 14. Flow of Funds. So long as any Parity Bonds are outstanding, the City covenants that all ULID Assessments (if any) shall be paid into the Bond Fund, and the Gross Revenue shall be deposited into the Water and Sewer Utility Fund (or the respective System funds therein) to be used for the following purposes only in the following order of priority:

- (1) To pay Operating and Maintenance Expenses.
- (2) To make when due the required payments into the Principal and Interest Account in respect of interest on the Parity Bonds.
- (3) To make when due the required payments into the Principal and Interest Account in respect of principal of (and premium on, if any) the Parity Bonds, whether at maturity or pursuant to redemption prior to maturity.
- (4) To make when due all payments required to be made into the Reserve Account.
- (5) To make when due all payments required to be made under any reimbursement agreement with a Bond Insurer in any priority not inconsistent with this ordinance, which the City may hereafter establish by ordinance.
- (6) To make when due the required payments to be made into any revenue bond, note warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay and secure the payment of any revenue obligations of the Water and Sewer Utility having a charge upon the Net Revenue junior and inferior to the charge thereon for the payment of the Parity Bonds.
- (7) Without priority, to retire by redemption or to purchase in the open market any outstanding Parity Bonds or junior lien obligations, to make necessary betterments and replacements of or repairs, additions or extensions to the Water and Sewer Utility, to make deposits into the Rate Stabilization Account, or for any other lawful purpose.

Section 15. Additional Covenants. So long as any Parity Bonds are outstanding, the City covenants and agrees with the owner of each Bond at any time outstanding as follows:

(a) *Maintenance and Operation.* The City will at all times maintain, preserve and keep the properties of the Water and Sewer Utility in good repair, working order and condition, will make all necessary and proper additions, betterments, renewals and repairs thereto, and improvements, replacements and extensions thereof, and will at all times operate or cause to be

operated the properties of the Water and Sewer Utility and the business in connection therewith in an efficient manner and at a reasonable cost.

(b) *Establishment and Collection of Rates and Charges.* The City will establish, maintain and collect rates and charges for all services and facilities provided by the Water and Sewer Utility which will be fair and nondiscriminatory. The City will adjust those rates and charges from time to time so that: (i) the Gross Revenue will at all times be sufficient to (A) pay all Maintenance and Operation Expenses on a current basis, (B) pay when due all amounts that the City is obligated to pay into the Bond Fund and the accounts therein, (C) pay all taxes (or payments in lieu thereof), assessments or other governmental charges lawfully imposed on the Water and Sewer Utility and any and all other amounts which the City may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and (ii) the Adjusted Net Revenue in each fiscal year will be at least equal to the Coverage Requirement.

(c) *Sale or Disposition of Utility Property.* The City will not sell, lease, mortgage or in any manner encumber or dispose of all the property of the Water and Sewer Utility unless provision is made for payment into the Bond Fund of a sum sufficient to pay the principal of and interest on all Parity Bonds then outstanding. Further, the City will not sell, lease, mortgage, or in any manner encumber or dispose of (each, a "disposition") any part of the property of the Water and Sewer Utility that is used, useful and material to the operation thereof (the "affected portion") unless provision is made for replacement thereof or for payment into the Bond Fund of an amount which shall bear the same ratio to the amount of Parity Bonds then outstanding (less the amount of cash and investments in the Bond Fund and the accounts therein) as (i) the Net Revenue from affected portion of the Water and Sewer Utility for the twelve months preceding such disposition bears to (ii) the Net Revenue from the entire Water and Sewer Utility for the same period. Any money paid into the Bond Fund as a result of such a disposition shall be used to retire that proportion of then-outstanding Parity Bonds at the earliest possible date.

(d) *Books and Records.* The City will maintain complete books and records relating to the operation of the Water and Sewer Utility and its financial affairs, and will cause such books and records to be audited annually, and cause to be prepared an annual financial and operating statement, which shall be provided to any owner of Parity Bonds upon request.

(e) *No Free Service.* Except to aid the poor or infirm, to provide for resource conservation or to provide for the proper handling of hazardous materials, the City will not furnish or supply or permit the furnishing or supplying of any service or facility in connection with the operation of the Water and Sewer Utility free of charge to any person, firm or corporation, public or private, other than the City.

(f) *Collection of Delinquent Accounts.* On at least an annual basis, it will determine all accounts that are delinquent and will take all necessary action to enforce payment of such accounts against those property owners whose accounts are delinquent.

(g) *Insurance.* The City will at all times carry fire and such other forms of insurance on such of the buildings, equipment, facilities and properties of the Water and Sewer Utility as are ordinarily carried on such buildings, equipment, facilities, and properties by utilities engaged in the operation of similar utility systems to the full insurable value thereof, and also will carry

adequate public liability insurance at all times. The City may self insure or participate in a joint intergovernmental insurance pool or similar plan, and the cost of that insurance or self insurance shall be considered a part of Operating and Maintenance Expenses.

(h) *ULID Assessments.* The City will promptly collect all ULID Assessments and deposit such collections into the Bond Fund to pay or secure the principal of and interest on any Parity Bonds without those ULID Assessments being particularly allocated to any particular series of Parity Bonds.

Section 16. Rate Stabilization Account. The Rate Stabilization Account is established within the Water and Sewer Utility Fund. Deposits and withdrawals shall be made in accordance with this section at any time up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Net Revenue for that fiscal year, as follows:

(a) *Deposits to the Rate Stabilization Account.* The City may at any time, as determined by the City Finance Director and as consistent with the covenants contained in this ordinance, deposit into the Rate Stabilization Account amounts of Gross Revenue and any other money received by the Water and Sewer Utility and available to be used therefor, excluding principal proceeds of Parity Bonds or other borrowing. However, no deposit of Gross Revenue may be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement in the relevant fiscal year.

(b) *Withdrawals from the Rate Stabilization Account.* The City may withdraw money from the Rate Stabilization Account at any time upon authorization of the City Council (which may be by motion, resolution or ordinance) for inclusion in the Adjusted Net Revenue for any fiscal year of the Water and Sewer Utility, except that the total amount withdrawn from the Rate Stabilization Account in any fiscal year may not exceed the Annual Debt Service in that year.

Earnings from investments in the Rate Stabilization Account shall be deposited in that account and shall not be included as Adjusted Net Revenue unless and until withdrawn from that account.

Section 17. Separate Utility Systems. The City may create, acquire, construct, finance, own and operate one or more additional systems for water supply, sewer service, water, sewage or stormwater transmission, treatment or other commodity or utility service. The revenue of that Separate Utility System, and any utility local improvement district assessments payable solely with respect to improvements to a Separate Utility System, shall not be included in the Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand the Separate Utility System. Neither the Gross Revenue nor the Net Revenue may be pledged to the payment of any obligations of a separate utility Separate System except that the Net Revenue may be pledged on a basis subordinate to the lien of the Parity Bonds.

Section 18. Refunding of the Refunded Bonds.

(a) *Authorizations with Respect to Refundings.* Under the terms and conditions set forth by this ordinance, the Designated Representative is authorized to designate the applicable Redemption Dates and to appoint the Refunding Trustee for the Bonds. The Designated Representative may serve as, or appoint separately, the Refunding Trustee for the Bonds.

(b) *Findings and Determinations with Respect to the Refundings.* Prior to approving the sale of the Bonds, the Designated Representative or other appropriate City official shall make the following determinations in writing:

- (1) The Redemption Date is the earliest practical date or dates on which the Refunded Bonds may be called for redemption;
- (2) The Refunding Plan will be effected by the issuance and sale of the Bonds and the application of the proceeds of such Bonds (together with other money of the City, if necessary) to carrying out the Refunding Plan and that the money to be deposited with the Refunding Trustee for the Refunded Bonds in accordance with the Refunding Plan will be sufficient (together with interest earned on the Acquired Obligations) to discharge and satisfy the obligations of the City under Refunded Bond Ordinances.

Because the Refunded Bonds are being refunded primarily to effect a change in covenants, no minimum savings threshold is required. The City Council finds that, based on the foregoing determinations, the pledges, charges, trusts, covenants, and agreements of the City made or provided for in the applicable Refunded Bond Ordinances, immediately upon the deposit of sufficient proceeds of the Bonds with the Refunding Trustee, the Refunded Bonds shall no longer be deemed to be outstanding under the applicable Refunded Bond Ordinances and the lien and charge of the Prior Parity Bonds shall be released.

(c) *Authorization for Refunding Trust Agreement.* The Designated Representative and the Mayor are each independently authorized to execute and deliver to the Refunding Trustee a Refunding Trust Agreement, which sets forth the duties, obligations and responsibilities of the Refunding Trustee in connection with the Refunding Plan, provisions for payment of the fees, compensation and expenses of such Refunding Trustee, and such other provisions as may be necessary so that the Bonds are in compliance with the requirements of federal law governing the exclusion of interest on the Bonds from gross income for federal income tax purposes.

(d) *Call for Redemption of Refunded Bonds.* The Designated Representative is authorized to call, on behalf of the City, the Refunded Bonds for redemption on their respective Redemption Date(s) in accordance with this ordinance. In addition to such other information as may be necessary or convenient, the call for redemption shall specify the name of the Refunded Bonds being called, their maturity dates, their Redemption Date(s) and redemption prices (expressed as a percentage of par, plus accrued interest), and shall be irrevocable after the Bonds are delivered to the initial purchaser thereof. The Designated Representative, the Mayor and other proper City officials are authorized and directed to give or cause to be given such notices as required, at the times and in the manner required pursuant to the Refunded Bond Ordinances, in order to effect the defeasance and redemption prior to maturity of the Refunded Bonds.

(e) *Use of Bond Proceeds.* Proceeds of the Bonds (together with other money of the City, if necessary) in an amount sufficient to carry out the Refunding Plan shall, immediately upon receipt, be deposited with the Refunding Trustee as set forth in the Refunding Trust Agreement. The Refunding Trustee shall use the money so deposited to discharge the obligations of the City relating to the Refunded Bonds under the Refunded Bond Ordinances by providing for the payment of the amounts required to be paid by the Refunding Plan. The Refunding Plan shall be carried out, and proceeds of the Bonds shall be applied, in accordance with this ordinance and the laws of the State.

(f) *Acquisition and Substitution of Acquired Obligations.* The Refunding Trust Agreement shall authorize and direct the Refunding Trustee to purchase the Acquired Obligations (or substitute obligations) and to make the payments required to be made by the Refunding Plan from the Acquired Obligations (or substitute obligations) and money deposited with the Refunding Trustee pursuant to this ordinance. All Acquired Obligations (or substitute obligations) and the money deposited with the Refunding Trustee and any income earned on the amounts so deposited shall be held irrevocably, invested and applied in accordance with the provisions of the ordinance that authorized the Refunded Bonds, this ordinance, chapter 39.53 RCW and other applicable statutes of the State, and the Refunding Trust Agreement. All necessary and proper fees, compensation and expenses of the Refunding Trustee and all other costs incidental to the setting up of the escrow to accomplish the refunding of the Refunded Bonds and costs related to the issuance and delivery of the Bonds, including bond printing, verification fees, Bond Counsel's fees and other related expenses, may be paid out of the proceeds of the Bonds. To the extent practicable, such obligations shall be discharged fully by the Refunding Trustee's simultaneous purchase of the Acquired Obligations, bearing such interest and maturing as to principal and interest in such amounts and at such times so as to provide, together with a beginning cash balance, if necessary, for the payment of the amounts required to be paid by the Refunding Plan. The Acquired Obligations shall be listed and more particularly described in a schedule attached to the Refunding Trust Agreement, but are subject to substitution as set forth below. Prior to the purchase of any such Acquired Obligations, the City reserves the right to substitute other Government Obligations for any of the Acquired Obligations and to use any savings created thereby for any lawful City purpose if (i) in the opinion of Bond Counsel, the interest on the Bonds and the Bonds issued as tax-exempt obligations will remain excluded from gross income for federal income tax purposes under Sections 103, 148 and 149(d) of the Code, and (ii) such substitution shall not impair the timely payment of the amounts required to be paid by the Refunding Plan, as verified by a nationally recognized firm of independent certified public accountants. After the purchase of the Acquired Obligations by the Refunding Trustee, the City reserves the right to substitute therefor cash or Government Obligations subject to the conditions that such money or securities held by the Refunding Trustee shall be sufficient to carry out the Refunding Plan, that such substitution will not cause the Bonds or the Refunded Bonds to be arbitrage bonds within the meaning of Section 148 of the Code and regulations under such section of the Code in effect on the date of such substitution and applicable to obligations issued on the issue date of the Bonds, and that the City obtain: (i) verification by a nationally recognized independent certified public accounting firm reasonably acceptable to the Refunding Trustee confirming that the payments of principal of and interest on the Government Obligations, if paid when due, and any other money held by the Refunding Trustee will be sufficient to carry out the Refunding Plan; and (ii) an opinion from Bond Counsel to the effect that the disposition and substitution or purchase of such securities,

under the statutes, rules and regulations then in force and applicable to the Bonds, will not cause the interest on the Bonds or the Refunded Bonds issued as tax-exempt obligations to be included in gross income for federal income tax purposes and that such disposition and substitution or purchase is in compliance with the statutes and regulations applicable to the Bonds. Any surplus money resulting from the sale, transfer, other disposition or redemption of the Acquired Obligations and the substitutions therefor shall be released from the trust estate and may be used for any lawful City purpose.

Section 19. Manner of Sale of Bonds. The Designated Representative is authorized to engage Bond Counsel and a Financial Advisor to advise the City in connection with the issuance and sale of the Bonds. In consultation with these professionals, City officials, and other appropriate City staff and advisors, the Designated Representative shall take into account those factors that, in his or her judgment, will result in the lowest true interest cost on the Bonds to their maturity, including, but not limited to current interest rates for obligations comparable to the Bonds and determine whether to offer the Bonds for sale at competitive bid or through a negotiated sale.

(a) *Procedure for Negotiated Sale.* If the Designated Representative determines that the Bonds should be sold by negotiated sale, the Designated Representative shall solicit one or more Underwriters with which to negotiate the sale of those Bonds. The Bond Purchase Contract for the Bonds shall set forth the Final Terms of the Bonds. The Designated Representative is authorized to execute the Bond Purchase Contract on behalf of the City, so long as the terms provided therein are consistent with the parameters set forth in this ordinance.

(b) *Procedure for Competitive Sale.* A competitive sale shall include preparation of an official notice of bond sale for the Bonds, setting forth parameters for the Final Terms of such sale and any other bid parameters that the Designated Representative deems appropriate consistent with this ordinance. Bids for the purchase of the Bonds shall be received at such time or place and by such means as the Designated Representative directs. On the date and time established for the receipt of bids for the Bonds, the Designated Representative (or his or her designee) shall open bids and shall cause the bids to be mathematically verified. The Designated Representative is authorized to award, on behalf of the City, the winning bid and accept the winning bidder's offer to purchase the Bonds, with such adjustments to the aggregate principal amount and principal amount per maturity as the Designated Representative deems appropriate, consistent with the terms of this ordinance. The Designated Representative may, in his or her discretion, reject any or all bids submitted and may waive any formality or irregularity in the bid or bidding process if he or she deems it to be in the City's best interest to do so. If all bids are rejected, the Bonds may be sold pursuant to negotiated sale or in any manner provided by law as the Designated Representative determines is in the best interest of the City, within the parameters set forth in this ordinance.

(c) *CUSIP Numbers.* CUSIP numbers will be printed on the Bonds if requested by the Underwriter, but neither failure to print CUSIP numbers on any Bond nor error with respect thereto shall constitute cause for a failure or refusal by the Underwriter to accept delivery of and pay for the Bonds in accordance with the purchase offer. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the City, but the fee of the CUSIP Service

Bureau for the assignment of those numbers shall be the responsibility of and shall be paid by the purchasers.

Section 20. Parity Conditions. The City reserves the right to issue Future Parity Bonds which will constitute a charge and lien upon the Net Revenue and ULID Assessments on a parity with the Bonds if the Parity Conditions are met and complied with at the time of the issuance of those Future Parity Bonds. Nothing contained in the Parity Conditions shall prevent the City from issuing revenue obligations having a lien on the Net Revenue that is junior to the lien thereon that secures the Parity Bonds, or from pledging to pay into a bond redemption fund or account for such junior lien obligations assessments (including interest and penalties thereon) in any utility local improvement district that are levied to pay part or all of the cost of improvements being constructed out of the proceeds of the sale of such junior lien obligations. Neither shall anything contained in this ordinance prevent the City from issuing revenue obligations to refund maturing Parity Bonds for the payment of which money is not otherwise available.

Section 21. Tax Matters.

(a) *Preservation of Tax Exemption for Interest on Bonds.* The City covenants that it will take all actions reasonably necessary and within its control to prevent interest on the Bonds from being includable in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the Bonds or other funds of the City treated as proceeds of the Bonds at any time during the term of the Bonds which will cause interest on the Bonds to be included in gross income for federal income tax purposes. The City also covenants that it will, to the extent the arbitrage rebate requirement of Section 148 of the Code is applicable to the Bonds, take all actions necessary to comply (or to be treated as having complied) with that requirement in connection with the Bonds, including the calculation and payment of any penalties that the City has elected to pay as an alternative to calculating rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the Code to prevent interest on the Bonds from being included in gross income for federal income tax purposes.

(b) *Designation of Bonds as "Qualified Tax-Exempt Obligations."* The Bonds shall be designated as "qualified tax-exempt obligations" for the purposes of Section 265(b)(3) of the Code, if the following conditions are met: (1) the Finance Director is able to determine and certify that the Bonds are not "private activity bonds" within the meaning of Section 141 of the Code; (2) the reasonably anticipated amount of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) which the City and any entity subordinate to the City (including any entity that the City controls, that derives its authority to issue tax-exempt obligations from the City, or that issues tax-exempt obligations on behalf of the City) will issue during the calendar year in which the Bonds are issued will not exceed \$10,000,000; and (3) the amount of tax-exempt obligations, including the Bonds, so designated by the City as "qualified tax-exempt obligations" for the purposes of Section 265(b)(3) of the Code during the calendar year in which the Bonds are issued does not exceed \$10,000,000.

Section 22. Official Statement.

(a) *Preliminary Official Statement under the Rule.* The Designated Representative and Mayor are each independently authorized to review and approve the information about the City contained in any preliminary official statement (the "Preliminary Official Statement") prepared in connection with the public offering and sale of the Bonds to be sold to the public; and (for the sole purpose of aiding a participating underwriter in its compliance with Section (b)(1) of the Rule, if applicable) "deem final" that Preliminary Official Statement as of its date, except for the omission of information permitted to be omitted by the Rule and approve or ratify the distribution of that preliminary official statement to potential purchasers of the Bonds.

(b) *Approval of Official Statement.* The Designated Representative and Mayor are each independently authorized to review and approve distribution of a final official statement with respect to the Bonds to be sold to the public. The City agrees to cooperate with the purchaser of the Bonds to deliver or cause to be delivered, within such period as may be required by applicable law, copies of the final official statement pertaining to the Bonds in sufficient quantity to comply with paragraph (b)(4) of the Rule and rules of the MSRB.

Section 23. Undertaking to Provide Continuing Disclosure. To meet the requirements of paragraph (b)(5) of the Rule, as applicable to a participating underwriter for the Bonds, the Designated Representative is authorized to execute a written undertaking to provide continuing disclosure for the benefit of holders of the Bonds in substantially the form attached as Exhibit C.

Section 24. Amendatory and Supplemental Ordinances.

(a) This ordinance shall not be modified or amended in any respect subsequent to the initial issuance of the Bonds, except as provided in and in accordance with and subject to the provisions of this section.

(b) The City, from time to time, and at any time, without the consent of or notice to the registered owners of the Bonds, may pass supplemental or amendatory ordinances as follows:

- (1) To cure any formal defect, omission, inconsistency or ambiguity in this ordinance in a manner not adverse to the owner of any Parity Bonds;
- (2) To impose upon the Bond Registrar (with its consent) for the benefit of the registered owners of the Bonds any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with this ordinance as theretofore in effect;
- (3) To add to the covenants and agreements of, and limitations and restrictions upon, the City in this ordinance, other covenants, agreements, limitations and restrictions to be observed by the City which are not contrary or inconsistent with this ordinance as theretofore in effect;
- (4) To confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by this ordinance of any other money, securities or funds;

- (5) To authorize different denominations of the Bonds and to make correlative amendments and modifications to this ordinance regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;
- (6) To modify, alter, amend or supplement this ordinance in any other respect which is not materially adverse to the registered owners of the Bonds and which does not involve a change described in subsection (c) of this section; and
- (7) Because of change in federal law or rulings, to maintain the exclusion from gross income of the interest on the Bonds from federal income taxation.

Before the City may pass any such supplemental ordinance pursuant to this subsection, there shall have been delivered to the City and the Bond Registrar an opinion of Foster Pepper PLLC, bond counsel, or other nationally recognized bond counsel, stating that such supplemental ordinance is authorized or permitted by this ordinance and, upon the execution and delivery thereof, will be valid and binding upon the City in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(c) Except for any supplemental ordinance entered into pursuant to subsection (b) of this section, subject to the terms and provisions contained in this subsection (c) and not otherwise:

- (1) Registered owners of not less than 50% in aggregate principal amount of the Bonds then outstanding shall have the right from time to time to consent to and approve the passage by the City Council of any supplemental ordinance deemed necessary or desirable by the City for the purpose of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this ordinance; except that, unless approved in writing by the registered owners of all the Bonds then outstanding, nothing contained in this section shall permit, or be construed as permitting: (i) a change in the times, amounts or currency of payment of the principal of or interest on any outstanding Bond, or a reduction in the principal amount of redemption price of any outstanding Bond or a change in the redemption price of any outstanding Bond or a change in the method of determining the rate of interest thereon; (ii) a preference of priority of any Bond or Bonds or any other bond or bonds; or (iii) a reduction in the aggregate principal amount of Bonds, the consent of the registered owners of Bonds of which is required for any such supplemental ordinance.
- (2) If at any time the City shall pass any supplemental ordinance for any of the purposes of this subsection (c), the Bond Registrar shall cause notice of the proposed supplemental ordinance to be given by first class United States mail to all registered owners of the then outstanding Bonds and to Moody's Investors Service, Inc. and Standard & Poor's, if the Bonds are rated by those agencies, and to the Bond Insurer. Such notice shall briefly set forth the nature of the proposed supplemental ordinance and shall state that a copy thereof is on file at the office

of the Bond Registrar for inspection by all registered owners of the outstanding bonds.

- (3) Within two years after the date of the mailing of such notice, the City may pass such supplemental ordinance in substantially the form described in such notice, but only if there shall have first been delivered to the Bond Registrar (i) the required consents, in writing, of the registered owners of the Bonds and (ii) an opinion of bond counsel stating that such supplemental ordinance is authorized or permitted by this ordinance, and, upon the execution and delivery thereof, will be valid and binding upon the City in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.
- (4) If registered owners of not less than the percentage of Bonds required by this subsection (c) have consented to and approved the execution and delivery thereof as herein provided, no owner of the Bonds shall have any right to object to the passage of such supplemental ordinance, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the passage thereof, or to enjoin or restrain the City or the Bond Registrar from passing the same or from taking any action pursuant to the provisions thereof.

(d) Upon the execution and delivery of any supplemental ordinance pursuant to the provisions of this Section 24, this ordinance shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this ordinance of the City, the Bond Registrar and all registered owners of Bonds then outstanding, shall thereafter be determined, exercised and enforced under this ordinance subject in all respects to such modifications and amendments.

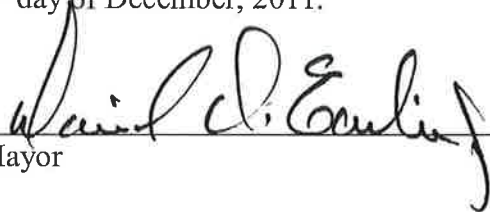
Section 25. General Authorization; Delivery of Bonds. The Designated Representative, the Mayor and other appropriate officers of the City are each authorized to do everything as in their judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated in connection with, this ordinance. The Bonds are to be printed at City expense and are to be delivered to the purchaser in accordance with the Bond Purchase Contract, with the approving legal opinion of Bond Counsel regarding the Bonds.

Section 26. Severability. The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. However, if the offending provision cannot be so modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this ordinance in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

Section 27. Prior Bond Authorization Repealed. Ordinance No. 3837 of the City authorizing the sale and issuance of general obligation bonds and revenue bonds for the purpose of refunding certain indebtedness of the City is hereby by repealed and is of no effect whatsoever.

Section 28. Effective Date of Ordinance. This ordinance shall take effect and be in force from and after its passage and five days following its publication as required by law and is not subject to referendum.

PASSED by the City Council and APPROVED by the Mayor of the City of Edmonds, Washington, at an open public meeting thereof, this 6th day of December, 2011.



Mayor

ATTEST:



City Clerk

APPROVED AS TO FORM:



FOSTER PEPPER PLLC
Bond Counsel

Filed with the City Clerk:	12-02-2011
Passed by the City Council:	12-06-2011
Published:	12-11-2011
Effective Date:	12-16-2011

PARITY CONDITIONS

As set forth in Section 20 of this Ordinance No.3863 , the City may issue Future Parity Bonds on a parity with the Bonds if and only if the following conditions are met and complied with at the time of issuance of those proposed Future Parity Bonds:

- (1) At the time of issuance of such Future Parity Bonds, there may not be any deficiency in the Principal and Interest Account or the Reserve Account of the Bond Fund.
- (2) The ordinance authorizing the Future Parity Bonds must require that all ULID Assessments levied in connection with those Future Parity Bonds will be paid directly into the Bond Fund.
- (3) The ordinance authorizing the Future Parity Bonds shall provide for the payment of the principal thereof and interest thereon out of the Bond Fund.
- (4) The ordinance authorizing the Future Parity Bonds must provide for the deposit into the Reserve Account of amounts necessary to comply with the Reserve Requirement and Section 12 of this ordinance.
- (5) At the time of the issuance of such Future Parity Bonds, the City shall have on file, either:
 - (a) A certificate from an Independent Utility Consultant showing that, in his or her professional opinion, the annual Net Revenue available for debt service on the Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued shall, for each year, be at least equal to the Coverage Requirement. In making such certification, the Net Revenue for any 12 consecutive calendar months out of the immediately preceding 24 consecutive months shall be used, and the following adjustments may be made to the historical net operating revenue:
 - (i) Any rate change that has taken place or been approved, may be reflected;
 - (ii) Revenue may be added from customers actually added to the Water and Sewer Utility subsequent to the 12-month base period;
 - (iii) Revenue may be added from customers to be served by the improvements being constructed out of the proceeds of the Future Parity Bonds to be issued; and
 - (iv) A full year's revenue may be included from any customer being served, but who has not been receiving service for the full period of operation used as a basis for the certificate; and
 - (v) Actual or reasonably anticipated changes to the Operating and Maintenance Expenses subsequent to such 12-month period shall be added or deducted, as is applicable.

- (b) A certificate of the Finance Director showing that, in his or her professional opinion, the annual Net Revenue available for debt service on the Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued shall, for each year, be at least equal to the Coverage Requirement. In making such certification, the Finance Director shall assume that (A) the proposed Future Parity Bonds will remain outstanding to their scheduled maturities, and (B) any Parity Bonds to be refunded by those Future Parity Bonds are not outstanding. The Finance Director shall not make any of the adjustments referred to above.

However, if the Future Parity Bonds are being issued for the sole purpose of refunding then-outstanding Parity Bonds (including paying costs of issuance and providing for the Reserve Requirement), no coverage certification is required if, as result of the issuance of those Future Parity Bonds, (a) the Annual Debt Service on the Future Parity Bonds to be issued is not increased by more than \$5,000 over the Annual Debt Service for that year of the bonds being refunded, and (b) the various annual maturities of the refunding Future Parity Bonds will not extend more than one year longer than the Parity Bonds being refunded. Furthermore, no certificate shall be required in connection with the issuance of Future Parity Bonds if the amount of such bonds proposed to be issued does not exceed the ULID Assessments levied in support of such Future Parity Bond issue by more than \$5,000 plus any amount of the proceeds of such Future Parity Bonds deposited in the Reserve Account as capitalized reserve.

Water System Plan of Additions:

A summary of the planned additions and betterments to the water utility is as follows:

- Improvements to the Alderwood Supply Station to expand its capacity and improve its operation in conjunction with the Five Corners Pump Station.
- Improvements to the Five Corners Pump Station to replace old equipment, expand the capacity of the station, and improve the operation of the station in conjunction with the Alderwood Supply Station.
- Improvements to the Seaview Reservoir, including ventilation system improvements and new water quality sampling equipment.
- Improvements to the Yost Reservoir, including ventilation system improvements, access hatch improvements, and new water quality sampling equipment.
- Recoating and related improvements to the Five Corners 3.0 MG Reservoir and 1.5 MG Reservoir.
- Construction and equipping of a new pressure reducing valve station near Viewland Way and 12th Avenue to increase fire flow and provide supply redundancy in the 420 Zone.
- Pressure relief improvements needed to protect the water system from potentially high pressure that could occur during certain events.
- Replacement of several pressure reducing valve stations and improvements to other stations to ensure long term operation and reliability.
- Installation of isolation valves on the 24-inch transmission main to minimize impacts to the system during maintenance and repairs.
- Repair and replacement of water mains needed due to age and undesirable pipe material and a need to improve flows.

Sewer System Plan of Additions:

A summary of the planned additions and betterments to the sewer utility are as follows:

- Improvements to Lift Stations 3, 4, 5, 9, 10, 11, 12, 14, & 15.
- Repair and replacement of sewer pipe sections needed due to age and undesirable pipe material and a need to improve flows.
- Rehabilitation of existing “cured in place pipe” to address pipe integrity problems in the sewer pipe system.

Stormwater System Plan of Additions:

A summary of the planned additions and betterments to the stormwater management utility are as follows:

- SW Edmonds Basin storm drainage improvements, including connecting sumps on 238th St SW to Hickman Park Infiltration System (Study Project #3)
- Edmonds Marsh – Shellebarger / Willow Creek Flood Plain Delineation Study
- Improvements relating to the Perrinville Creek Drainage Improvements and Habitat Enhancement project, including Perrinville Creek culvert replacement
- Drainage improvements for projects associated with Lake Ballinger
- North Talbot Road drainage improvements
- Upgrades for water quality in the storms drains system for the Public Works yard
- Storm Drainage improvements around BNSF utility crossings
- Dayton Street storm cured in-place pipe (CIPP) rehabilitation

Form of Continuing Disclosure Undertaking

To meet the requirements of paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for the Bonds, the City makes the following written Undertaking for the benefit of holders of the Bonds:

- (1) Undertaking to Provide Annual Financial Information and Notice of Listed Events. The City undertakes to provide or cause to be provided, either directly or through a designated agent, to the MSRB, in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB:
 - (a) Annual financial information and operating data of the type included in the final official statement for the Bonds and described in subsection (2) of this section (“annual financial information”);
 - (b) Timely notice (not in excess of 10 business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City, as such “Bankruptcy Events” are defined in Rule 15c2-12; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.
 - (c) Timely notice of a failure by the City to provide required annual financial information on or before the date specified in subsection (2) of this section.
- (2) Type of Annual Financial Information Undertaken to be Provided. The annual financial information that the City undertakes to provide in subsection (a) of this section:
 - (a) Shall consist of (1) annual financial statements prepared (except as noted in the financial statements) in accordance with generally accepted accounting principles applicable to State local governmental units such as the City, as such principles may be changed from time to time, which statements shall not be audited, except, however, that if and when audited financial statements are otherwise prepared and

available to the City they will be provided; (2) [references to the specific sections of the Official Statement to be inserted upon publication of the Official Statement];

- (b) Shall be provided not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City's fiscal year ending December 31, 2011; and
 - (c) May be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.
- (3) Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12. The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.
 - (4) Beneficiaries. The Undertaking evidenced by this section shall inure to the benefit of the City and any Beneficial Owner of Bonds, and shall not inure to the benefit of or create any rights in any other person.
 - (5) Termination of Undertaking. The City's obligations under this Undertaking shall terminate upon the legal defeasance of all of the Bonds. In addition, the City's obligations under this Undertaking shall terminate if those provisions of Rule 15c2-12 which require the City to comply with this Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the City, and the City provides timely notice of such termination to the MSRB.
 - (6) Remedy for Failure to Comply with Undertaking. As soon as practicable after the City learns of any failure to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected. No failure by the City or other obligated person to comply with the Undertaking shall constitute a default in respect of the Bonds. The sole remedy of any Beneficial Owner of a Bond shall be to take such actions as that Beneficial Owner deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the Undertaking.

- (7) Designation of Official Responsible to Administer Undertaking. The Finance Director of the City (or such other officer of the City who may in the future perform the duties of that office) or his or her designee is authorized and directed in his or her discretion to take such further actions as may be necessary, appropriate or convenient to carry out the Undertaking of the City in respect of the Bonds set forth in this section and in accordance with Rule 15c2-12, including, without limitation, the following actions:
- (a) Preparing and filing the annual financial information undertaken to be provided;
 - (b) Determining whether any event specified in subsection (a) has occurred, assessing its materiality, where necessary, with respect to the Bonds, and preparing and disseminating any required notice of its occurrence;
 - (c) Determining whether any person other than the City is an “obligated person” within the meaning of Rule 15c2-12 with respect to the Bonds, and obtaining from such person an undertaking to provide any annual financial information and notice of listed events for that person in accordance with Rule 15c2-12;
 - (d) Selecting, engaging and compensating designated agents and consultants, including but not limited to financial advisors and legal counsel, to assist and advise the City in carrying out the Undertaking; and
 - (e) Effecting any necessary amendment of the Undertaking.

Dated _____, 20__.

CITY OF EDMONDS, WASHINGTON

CERTIFICATION

I, the undersigned, City Clerk of the City of Edmonds, Washington (the "City"), hereby certify as follows:

1. The attached copy of Ordinance No. 3863 (the "Ordinance") is a full, true and correct copy of an ordinance duly passed at a regular meeting of the City Council of the City held at the regular meeting place thereof on December 6, 2011, as that ordinance appears on the minute book of the City; and the Ordinance will be in full force and effect five days after publication in the City's official newspaper; and

2. A quorum of the members of the City Council was present throughout the meeting and a majority of its members voted in the proper manner for the passage of the Ordinance.

IN WITNESS WHEREOF, I have hereunto set my hand this 6th day of December, 2011.

CITY OF EDMONDS, WASHINGTON



City Clerk

Affidavit of Publication

STATE OF WASHINGTON,
COUNTY OF SNOHOMISH

} S.S.

The undersigned, being first duly sworn on oath deposes and says that she is Principal Clerk of THE HERALD, a daily newspaper printed and published in the City of Everett, County of Snohomish, and State of Washington; that said newspaper is a newspaper of general circulation in said County and State; that said newspaper has been approved as a legal newspaper by order of the Superior Court of Snohomish County and that the notice

SUMMARY OF ORDINANCE NO. 3863 of the City of Edmonds, Washington

On the 6th day of December, 2011, the City Council of the City of Edmonds, passed Ordinance No. 3863. A summary of the content of said ordinance, consisting of the title, provides as follows:

AN ORDINANCE of the City of Edmonds, Washington, relating to the combined water and sewerage systems comprising the waterworks utility of the City; specifying, adopting and ordering the carrying out of a system or plan of additions to and betterments and extensions of the combined waterworks utility; providing for the issuance of not to exceed \$16,500,000 of the City's water and sewer revenue bonds: (a) to pay all or a portion of the costs of carrying out that Plan of Additions; (b) to carry out the refunding of the currently outstanding water and sewer revenue bonds of the City and pay the administrative costs of such refunding; (c) to fund the Reserve Requirement; and (d) to pay the costs of issuance and sale of the bonds; fixing or setting parameters with respect to certain terms and covenants of the bonds; and appointing the Finance Director as the City's designated representative to approve the final terms of the sale and issuance of the bonds, to appoint a refunding trustee and to take certain other actions with respect to carrying out the refunding and the issuance of the bonds.

The full text of this Ordinance will be mailed upon request.
DATED this 7th day of December, 2011.

CITY CLERK, SANDRA S. CHASE
Published: December 11, 2011.

Summary of Ordinance No. 3863

a printed copy of which is hereunto attached, was published in said newspaper proper and not in supplement form, in the regular and entire edition of said paper on the following days and times, namely:

December 11, 2011

and that said newspaper was regularly distributed to its subscribers during all of said period.

Jody Stohl

Principal Clerk

Subscribed and sworn to before me this

12th

day of

December, 2011

[Signature]
Notary Public in and for the State of Washington, residing at Everett, Snohomish County.

